Associated Press, June 7, 2007

Federal Mortgage Reform Unlikely in 2007
By ALAN ZIBEL

WASHINGTON — Homeowners unable to pay monthly mortgage bills and facing foreclosure shouldn't count on help from Washington this year. Regulators and lawmakers seem to be taking a wait-and-see approach as they confront the fallout from several years of lenders making too many home loans to people with inadequate credit.

It would be a mistake to overreact to a market that is already showing signs of self-correcting at a time when little evidence has emerged that the broader economy is at risk, according to regulators and some lawmakers. They also note that consumer spending remains solid, the nation's jobless rate is still low, and stock indexes have hit record highs in reaction to strong corporate profits.

"We have an obligation to prevent fraud and abusive lending," Federal Reserve Chairman Ben Bernanke said in a speech Tuesday. "At the same time, we must tread carefully so as not to suppress responsible lending or eliminate refinancing opportunities for subprime borrowers."

Consumer advocates, who see a rare opportunity to strengthen lending laws, say that represents a misguided optimism, and point to housing statistics as proof that action is warranted.

The National Association of Realtors said Wednesday it expects sales of existing homes to drop 4.6 percent this year to 6.2 million while the median home price is expected to fall 1.3 percent to $219,000. It would be the first annual drop since the trade group began keeping records in the 1960s.

The foreclosure rate nationwide is rising at an annual rate double that of two years ago. Nearly 2 million adjustable-rate mortgages are forecast to reset at higher rates over the next two years, suggesting the foreclosure rate has not peaked.

If the prospect of soaring foreclosures doesn't motivate Congress "to take firm and deliberate action, I don't know what on this God's earth will," says John Taylor, president of the Washington-based National Community Reinvestment Coalition, which advocates for low-income and minority groups.

However, John Robbins, chairman of the Mortgage Bankers Association, predicts foreclosures among borrowers with the riskiest credit will amount to 0.25 percent of U.S. mortgages.

"No seismic financial occurrence is about to overwhelm the U.S. economy," Robbins said in a speech last month.

Lenders say they are already working to assist homeowners in trouble. After attending a "homeownership preservation summit" called by Sen. Christopher Dodd, a Connecticut Democrat who chairs the Senate Banking Committee, big lenders, including Wells Fargo & Co., Countrywide Financial Corp., HSBC Holdings PLC, Citigroup Inc. and mortgage finance giants Fannie Mae and Freddie Mac, agreed to help borrowers modify loan terms before they reset to higher rates.

Citing Dodd's summit, Mark Adelson, an analyst with Nomura Securities in New York, warns that the housing market would be hurt if some banks overzealously arrange loan workouts.

"Lending money is not about being nice," Adelson said. "It's a business."

Hedge funds have asked a trade group that regulates their industry to deny a Bear Stearns Cos. proposal regarding banks' legal responsibilities if they arrange a workout on a loan that also has a default-risk contract attached.

Hedge funds negotiated billions of dollars worth of such default-risk contracts with banks on mortgages the banks issued the past few years. The hedge funds were in effect underwriting some of the risk the banks had taken on to issue mortgages to borrowers with risky credit.

In many cases, banks now owe the hedge funds much more money under the terms of those contracts than the financial hit they take when they help bail out a troubled loan, according to the letters that were sent by more than 25 hedge funds.

Michael Waldorf, a senior vice president at hedge fund Paulson & Co., one of the companies that signed the letter, insists his firm's concerns "have nothing to do with helping borrowers ... our concerns are about market manipulation by institutions."

In an e-mail, a Bear Stearns spokesman suggested that some hedge funds are disappointed that big bets they made on a subprime mortgage meltdown aren't paying off.

He denied that Bear Stearns decides to modify the terms of distressed loans based on "any activity or outstanding positions" in default-risk contracts.

Federal lawmakers and regulators say they are balancing how to make sure high-risk borrowers can still get loans against efforts to rein in abusive lending practices.

"We will try to make sure that we don't inadvertently regulate subprime lending to death," said Rep. Brad Miller, a North Carolina Democrat and longtime proponent of predatory lending legislation.

Miller is confident that a bill he and his colleagues plan to introduce will pass the House quickly. The bill will be modeled after consumer protection laws in states like North Carolina and New Jersey, where reforms aren't drying up credit, he says.

The bill likely faces an uncertain future in the Senate. And though Sen. Charles Schumer, D-N.Y., wants $300 million of government money _ matched dollar-for-dollar by mortgage lenders _ to be channeled to community groups that help distressed homeowners avoid foreclosure, his proposal has gained little traction.

On the regulatory front, the Fed has scheduled a June 14 hearing about whether to take action under a 1994 law that gives it authority over deceptive mortgage practices by any lender, not just federally regulated banks.

Rep. Carolyn Maloney, a New York Democrat who heads a House subcommittee that oversees financial institutions and consumer credit, wants the central bank to step in.

Dodd wants the Fed to go after lenders that made loans without requiring borrowers to set aside tax and insurance payments. He also wants limits on loans made without income verification, dubbed "liar loans."

In March, five federal agencies that regulate banks, thrifts and credit unions proposed guidelines requiring stricter evaluations of a borrower's ability to repay, among other recommendations.

The guidelines _ which apply only to federally regulated banks _ should be completed this month, Sheila Bair, chairman of the Federal Deposit Insurance Corp. said Wednesday. Bair said she hopes Congress and the Fed issue similar rules for nonbank lenders, such as the now-bankrupt New Century.